NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of San Diego (the "County") conform to generally accepted accounting principles (GAAP) applicable to governmental units. The following is a summary of the more significant of such policies.

A. THE FINANCIAL REPORTING ENTITY

The County of San Diego is a political subdivision of the State of California (the "State") charged with general governmental powers and governed by an elected five-member Board of Supervisors (the "Board"). As required by generally accepted accounting principles, these financial statements present the County of San Diego (the primary government) and its component units. The component units discussed in Note 1B are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

B. INDIVIDUAL COMPONENT UNIT DISCLOSURES

Blended component units are listed below. The first seven component units are legally separate entities which are governed by the San Diego County Board of Supervisors. They are reported as if they were part of the primary government, because they benefit the County exclusively. The San Diego County Capital Asset Leasing Corporation (SANCAL) is a non-profit corporation governed by a five-member Board of Directors which is appointed by the County Board of Supervisors. SANCAL is reported as if it was part of the primary government, because its sole purpose is to finance the acquisition of County buildings and equipment. The San Diego County Employees Retirement Association (SDCERA) is governed by a nine-person Board of Directors of which four members are appointed by the County Board of Supervisors. SDCERA is a legally separate entity reported as if it were part of the primary government, because it exclusively benefits the County by providing pensions for retired County employees. The San Diego County Children and Families Commission (SDCCFC) is governed by a five-member Board of Commissioners. All five Commissioners are appointed by the County Board of Supervisors. SDCCFC is reported as if it was part of the primary government, because its sole purpose is to finance the cost of ensuring that parents have high quality information and support so that their young children are physically, emotionally and developmentally ready to learn. Separate financial statements for the individual component units described above may be obtained from the County Chief Financial Officer/Auditor and Controller.

The first five entities listed below are included as special revenue funds, the sanitation districts as enterprise funds, and the Redevelopment Agency as a capital project fund and debt service fund. SANCAL is included as a special revenue fund, capital project fund and debt service fund. SDCERA is included as a pension trust fund. SDCCFC is included as a special revenue fund.

County Service Districts
Flood Control District
Lighting Maintenance District
Air Pollution Control District

County of San Diego Housing Authority
Sanitation Districts
San Diego County Redevelopment Agency
San Diego County Capital Asset Leasing Corporation (SANCAL)
San Diego County Employees' Retirement Association (SDCERA)
San Diego County Children and Families Commission (SDCCFC)

C. BASIS OF PRESENTATION

The financial transactions of the County are recorded in individual funds and account groups. The various funds and account groups are reported by type in the financial statements. Amounts in the "Totals-Memorandum Only" columns in the financial statements represent a summation of the combined financial statement line-items of the fund types and account groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different bases of accounting, both restricted and unrestricted amounts, and the caption "amount to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "Totals-Memorandum Only" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the County.

The County implemented Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" for fiscal year 2000/01. This statement establishes new standards concerning the timing for recognizing nonexchange transactions as revenues and deferred revenues. The County, in accordance with the statement, determined that it was not practical to restate the detailed transactions for fiscal year 1999/00 and, instead, restated the beginning fund balance/net asset numbers of certain funds for fiscal year 2000/01. It may therefore be misleading to make meaningful comparisons between the two fiscal years. The numbers for fiscal year 1999/00 are presented for informational purposes. See footnote 4H for additional details.

The County uses the following fund categories, fund types, and account groups:

Governmental Fund Types

General Fund - To account for all financial resources except those required to be accounted for in another fund. The general fund is the County's operating fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Included in these funds are the general funds of various component entities as described in Note 1B.

Debt Service Funds - To account for the accumulation of resources for the payment of principal and interest on general long-term debt.

Capital Project Funds - To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund types).

Proprietary Fund Types

Enterprise Funds - To account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - To account for the financing of goods or services provided by one department to other departments of the County, or to other governments, on a cost-reimbursement basis.

Fiduciary Fund Types

Trust and Agency Funds – To account for assets held by the County as a trustee or as an agent for individuals, private organizations, other governments and/or other funds. These include the pension trust fund (San Diego County Employees' Retirement Association), investment trust fund and agency fund.

Account Groups

General Fixed Assets Account Group - To account for all fixed assets of the County, except those accounted for in the proprietary-fund types.

General Long-Term Debt Account Group - To account for all long-term obligations of the County, except those accounted for in the proprietary fund types.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Agency funds are custodial in nature and do not involve measurement of results of operations.

All proprietary funds, the pension trust fund and the investment trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity for the proprietary funds (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Financial Accounting Standards Board Statements issued after November 30, 1989, are not applied in reporting proprietary fund operations.

Governmental and Agency fund types are accounted for on the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County

considers this to be one year. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues that are accrued include property taxes, sales tax, interest, and state and federal grants and subventions.
Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt which is recognized when due; (2) prepaid expenses which are reported as current period expenditures, rather than allocated; and (3) accumulated unpaid vacation, sick leave, and other employee benefits which are reported in the period due and payable rather than in the period earned by employees.

Proprietary fund types, the pension trust fund and the investment trust fund are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. There are no unbilled utility service receivables for the proprietary fund types.

E. PROPERTY TAXES

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1 lien date. However, upon a change in ownership of property or completion of new construction, State law requires an accelerated recognition and taxation of changes in real property assessed valuation. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing locally assessed and State assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are payable in two installments, due November 1 and February 1. If unpaid, such taxes become delinquent after 5:00 p.m. on December 10 and April 10, respectively, and a ten percent penalty attaches. Property on the secured roll with unpaid delinquent taxes is declared tax-defaulted after 5:00 p.m. on June 30th. Such property may thereafter be redeemed by payment of the delinquent taxes, the ten percent delinquency penalty, a ten dollar cost, a fifteen dollar per parcel redemption fee (from which the State receives five dollars), and redemption penalty of one and one-half percent per month starting July 1 and continuing until the end of redemption collectively, the "Redemption Amount"). If taxes remain unpaid after five years on the default roll, the property becomes subject to tax sale by the County Treasurer-Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1.

F. ASSETS, LIABILITIES, AND FUND EQUITY

Cash and Investments

Investments in County funds are stated at fair value. Securities which are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments in the Pension Trust Fund are reported at cost, which approximates fair value. The fair value of Pension Trust Fund real estate investments is based on independent appraisals. Investments of the Pension Trust Fund that do not have an established market are reported at estimated fair value.

For purposes of reporting cash flows, all amounts reported as "Equity in Pooled Cash and Investments," "Collections in Transit," and "Imprest Cash" are considered cash equivalents. Pooled cash and investment carrying amounts represent monies deposited in the County Treasurer's cash management pool and are similar in nature to demand deposits, (i.e., funds may be deposited and withdrawn at any time without prior notice or penalty). Allocations of assets and liabilities to individual funds related to reverse re-purchase agreements are not considered cash equivalents for purposes of cash flow reporting.

Inventories

Inventories, which consist of expendable supplies, are stated at average cost. They are accounted for as expenditures at the time of purchase and reported in the balance sheet of the General Fund and the Special Revenue Funds as an asset with an offsetting reserve. Inventory held by the Road Fund, a special revenue fund, and the proprietary fund types is carried at average cost and is expended when consumed.

Fixed Assets

General fixed assets are recorded as expenditures in the governmental fund types at time of purchase. These assets are capitalized at cost in the General Fixed Assets Account Group (GFAAG). The County has elected not to capitalize interest costs during the construction phase for assets capitalized in the GFAAG but does capitalize such interest, net of interest earned on invested proceeds over the same period, for assets capitalized in proprietary funds. In the case of acquisitions through gifts or contributions, such assets are recorded at fair market value at the time received. No depreciation has been provided on general fixed assets. Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, and drainage systems have not been capitalized. Such assets normally are immovable and of value only to the County; therefore, the purposes of stewardship and cumulative accountability for capital expenditures are satisfied without recording these assets. Proprietary fund type fixed assets are reported in those funds at cost or estimated fair market value at time of donation.

Depreciation is charged to operations of proprietary funds over the fixed assets' estimated useful lives using the straight-line method for structures and improvements, and the hours/miles-of-service method for equipment. The estimated useful lives are as follows:

Structures and Improvements	5-50 years
Equipment	4-20 years

Long-Term Liabilities

Long-term liabilities expected to be financed with resources from governmental fund types are accounted for in the General Long-Term Debt Account Group. Long-term liabilities of all proprietary fund types are accounted for in the respective funds.

Amounts recorded as accumulated leave benefits include an amount representing salary-related payments such as the employer's share of social security and Medicare taxes associated with payments made for such compensated absences. Accumulated leave benefits including vacation, sick leave, and compensatory time worked in the amount of approximately $68.8 million for the governmental fund types as of June 30, 2001, is recorded in the General Long-Term Debt Account Group. These amounts would not be expected to be liquidated from expendable available financial resources but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

Reservation/Designation of Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Comparative Data/Totals-Memorandum Only

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the County's financial position and operations. Also, certain of the prior year amounts have been reclassified to conform with the current year financial statement presentations. See footnote 4H for additional details.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

General Budget Policies

An operating budget is adopted each fiscal year for the governmental funds. Annual budgets are not required to be adopted for SANCAL, a non-profit corporation. Accordingly, Special Revenue, Debt Service, and Capital Projects Funds for this entity are not included in the accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - (Budget and Actual) NonGAAP Budgetary Basis. Unencumbered appropriations for the governmental funds lapse at fiscal year-end. Encumbered appropriations are carried forward to the subsequent fiscal year. Budgets for the governmental funds are adopted on a basis of accounting which is different from generally accepted accounting principles.

The major areas of differences are as follows:

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are reported as budgeted expenditures in the year the commitment to purchase is incurred. For GAAP purposes, encumbrances outstanding at fiscal year-end are reported as reservations of fund balances and do not constitute expenditures and liabilities, because the appropriations for these commitments will be carried forward and the commitments honored in the subsequent fiscal year.

Long-term capital lease obligations are not budgeted as an expenditure and source of funds in the year the asset is acquired. Under a GAAP basis, such obligations are included as an expenditure and source of funds in the year the asset is acquired.

Loans and deposits to other agencies, if any, and their subsequent repayments are budgeted as expenditures and revenues, respectively. Under a GAAP basis, these items are not recognized as expenditures and revenues.

On a budgetary basis, unrealized gains and losses on the fair value of investments are not recognized. For GAAP purposes, such gains or losses are recognized.
Expenditures may not legally exceed budgeted appropriations at the expenditure object level within each department. Departmental intrafund expenditure transfers do not have the budgetary status of legal appropriations. Therefore, variances between estimated transfers and actual transfers are not displayed in the general purpose financial statements, but are displayed as a general fund schedule within the Comprehensive Annual Financial Report. All amendments to the adopted budget require Board approval and, as such, reported budget figures are as originally adopted or subsequently amended by the Board. Supplemental appropriations during the year ended June 30, 2001, amounted to $257.6 million in the general fund.

B. BUDGETARY TO GAAP BASIS RECONCILIATION

The following schedule is a reconciliation of the budgetary and GAAP fund balances (In Thousands):

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
Fund Balance-Budgetary Basis	$373,908	233,669	1,494	1,482
Encumbrances Outstanding at Year-End	99,848	67,741		160
Fair Value Change in Investments	2,086	2,955	4	37
Restatement of 2000 fund balances	142,442	138,364		(5,901)
Fund Balances-Non Budgeted Funds		1,730	37,002	26,757
Fund Balances – GAAP Basis	$618,284	444,459	38,500	22,535

C. FUND DEFICITS

The following funds have an accumulated deficit at June 30, 2001 (In Thousands):

Capital Projects Funds	
San Diego County Redevelopment Agency (SDCRA)	$ 8,152
Enterprise Funds	
Transit	$ 425
Internal Service Funds	
Risk financing	$ 25,618

The deficit within the SDCRA fund is due to the use of loan proceeds in advance of the receipt of benefit fees or incremental tax revenues. This deficit will be reduced in future years upon the receipt of the incremental tax revenues. The deficit within the Transit fund is due to inadequate cost recovery from user fees and the recognition of fair value changes in the value of investments. This deficit will be reduced in future years as securities mature and user fees are adjusted to cover costs. The deficit in the Risk Financing fund is due to the prior years' recognition of liabilities based on actuarial studies. This deficit is expected to be reduced over a 10 year period beginning July 1, 1997, through increased rates to County departments and reduced claim experience through increased risk management.

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. EQUITY IN POOLED CASH AND INVESTMENTS, CASH, INVESTMENTS, AND OBLIGATIONS UNDER REVERSE REPURCHASE AGREEMENTS

The County maintains a cash and investment pool that is available for use by all funds of the County as well as the funds of other agencies for which the County Treasury is the depository. The San Diego County Treasurer issues a separate annual financial report on the County Investment Pool. This report may be obtained by writing to the San Diego County Treasurer, Room 152, County Administration Center, 1600 Pacific Highway, San Diego, California, 92101 or by calling (619) 531-4743. Copies are also available on the internet at www.sdtreastax.com.

Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments." Interest earned on the pooled funds is accrued in a pooled interest apportionment agency fund and is allocated based on the average daily cash balances of the participating funds. State law requires that interest income related to certain funds be considered income of the general fund of the County. Such interest has been recorded as revenue in the general fund.

"Cash with Fiscal Agent," represents amounts on deposit with trustees for the Air Pollution District, SANCAL, Pension Trust Fund (SDCERA), Pension Obligation Bonds, Redevelopment Agency, Teeter Commercial Paper Notes, and for repayment of the General Fund Tax and Revenue Anticipation Notes.

"Investments," represents the Inactive Wastesite Management Fund investments, the Pension Trust Fund (SDCERA) investments and stocks and bonds held for other agencies.

Deposits: At year-end the carrying amount of the County's deposits was $431,528,000 and the balance per various financial institutions was $414,528,000. Of the balance in financial institutions, $790,000 was covered by federal deposit insurance and $413,738,000 was collateralized according to State statutes which require depositories having public funds on deposit to maintain a pool of securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit. Of this amount $134,256,000 was held by the County or its agent in the County's name and $279,482,000 was held by the depository's trust department or agent in the County's name.

Investments: State statutes authorize the County to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase and reverse repurchase agreements, medium-term notes, and negotiable certificates of deposit issued by national and state licensed or chartered banks or federal or state savings and loan associations. Pension Trust Fund investments are authorized by the County Employees' Retirement Law of 1937. Statutes authorize "Prudent Expert" guidelines as to the form and types of investments which may be purchased. The County's investments are categorized below to give an indication of the level of risk assumed by the entity at year end (In Thousands). Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by counterparty's trust department or agent in the County's name. There were no investments with a risk Category 2 at June 30, 2001. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name.

(In Thousands)	Category 1	Category 3	Fair Value
Investments – Categorized			
Bankers Acceptances	$	29,996	29,996
Repurchase Agreements	230,000	5,192	235,192
Commercial Paper	729,194		729,194
U.S. Government Securities	1,663,838	147,996	1,811,834
Negotiable certificates of deposit	145,940		145,940
Corporate notes	88,101		88,101
Corporate bonds	612,608		612,608
Common and preferred stock	2,284,969		2,284,969
Investments held by the County for other agencies:			
U.S. Government Securities	109		109
Corporate bonds	36		36
Common Stock	2		2
Subtotal	5,754,797	183,184	5,937,981
Investments – Not Categorized			
Investments held by broker dealers under Securities loans:			
U.S. Government securities			13,776
Corporate bonds			66,815
Common and preferred stock			91,544
Mutual Funds			267,348
Real Estate Equity			396,335
TOTAL INVESTMENTS			$ 6,773,799

Fair values and estimates of fair values are provided monthly by an independent pricing agency and such values are not supported by any guarantees on the part of the pool sponsor or the pricing agency. The County and certain school districts are involuntary pool participants in the County Treasurer's investment pool and represent 92.7 percent of the total pooled cash and investments on hand at June 30, 2001.

Reverse Repurchase Agreements: State statutes permit the County to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The County had no reverse repurchase agreements outstanding at June 30, 2001.

Securities Lending Transactions: Under the provisions of State statutes, the County Treasurer lends U.S. government obligations and SDCERA lends U.S. government obligations, domestic and international bonds and equities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The County's custodial bank manages the securities lending programs for the County Treasurer and receives cash and securities as collateral pledged at 102 percent of the market value of securities lent. Fiscal agents for SDCERA manage the securities lending programs and receive cash securities pledged at 102 percent of fair value for domestic securities lent and 105 percent of the fair value of international securities lent.

Additional collateral has to be provided the next business day if its value falls to 100 percent or less of the market value of the securities lent. The collateral securities can not be pledged or sold by the County Treasurer or SDCERA unless the borrower defaults. No more than 20 percent of the Treasurer's pooled investment portfolio may be lent at one time. There is no restriction on the amount of SDCERA securities that may be lent at one time. Securities on loan at year-end are presented as unclassified in the preceding schedule of custodial credit risk and represent transactions of the SDCERA pension trust fund. At year-end, the pension trust fund has no credit risk exposure to borrowers because the amounts SDCERA owes the borrowers exceeds the amounts the borrowers owe SDCERA. The term to maturity of securities loans is generally matched with the term to maturity of the cash collateral. Such matching existed at fiscal year end.

B. RESTRICTED ASSETS-INVESTMENTS

Certain investments have been restricted by operation of law to fund post closure landfill costs over a 30-year period. These investments are recorded in the Inactive Wastesite Special Revenue Fund.

C. GENERAL FIXED ASSETS

The following is a summary of investments in general fixed assets by sources and a summary of changes in general fixed assets as of and for the year ended June 30, 2001.

Sources of Investment in General Fund Assets
By Fund at June 30, 2001
(In Thousands)

General Fund:	
General Fund Revenues	$1,192,458
Federal and State Grants	1,658
Special Revenue Funds:	
Special Revenue Fund Revenues	73,134
Special Revenue State & Fund Revenues	65
Capital Projects Funds:	
Lease Revenue Bonds	174
Certificates of Participation	273
Total	$1,267,762

Summary of Changes in General Fixed Assets by Class
For the Year Ended June 30, 2001
(In Thousands)

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 217,073	27,215	22,710	221,578
Structures & Improvements	532,719	270,124	97	802,746
Equipment	62,544	11,388	4,272	69,660
Construction in Progress	424,372	27,214	277,808	173,778
Total	$1,236,708	335,941	304,887	1,267,762

D. PROPRIETARY FUND TYPE FIXED ASSETS

Following is a summary of Proprietary Fund Type Fixed Assets by class as of June 30, 2001 (In Thousands):

	Enterprise	Internal Service
Land	$ 7,491	
Structures & Improvements	90,625	3,479
Equipment	11,650	82,539
Construction in Progress	3,929	29,854
Total	113,695	115,872
Less Accumulated Depreciation	45,583	40,222
Net	$ 68,112	75,650

E. LEASE COMMITMENTS

The County has commitments under long-term property operating lease agreements for facilities used for operations. These leases do not meet the criteria for capitalization under FASB Statement 13. The County is the lessee under the terms of several non-cancelable operating leases for real property used to house certain County facilities. The combined rental cost for which the County is obligated under these leases is as follows (In Thousands):

Fiscal Year	Minimum Payments
2001/02	$ 7,486
2002/03	6,842
2003/04	5,663
2004/05	5,379
2005/06	4,237
Thereafter	17,739
Total	$47,346

Total rental expense for all real property operating leases for the year ended June 30, 2001, was approximately $19.9 million.

In addition to real property leases, the County has also entered into long-term operating leases for personal property, a large portion of which represents data processing and duplicating equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 2001, was approximately $15.7 million.

Certain buildings and equipment are being leased under capital leases as defined in FASB Statement 13. The present value of the minimum lease obligation has been capitalized in the General Fixed Asset Account Group and is reflected as a liability in the General Long-Term Debt Account Group. The County assumes responsibility for all maintenance, repair, and structural modifications under the terms of the lease agreements.

Capital Lease Property Class	June 30, 2001 (In Thousands)
Structures and Improvements	$45,544
Equipment	30,981
Total	$76,525

Future minimum lease payments under capital leases consisted of the following at June 30, 2001 (In Thousands):

Fiscal Year	Minimum Lease Payment
2001/02	$ 9,504
2002/03	9,412
2003/04	8,909
2004/05	8,887
2005/06	8,772
Thereafter	70,058
Total Minimum Lease Payments	115,542
Less: Amount Representing Interest	(39,017)
Net Lease Payments	$ 76,525

F. GENERAL LONG-TERM DEBT

General Long-Term Debt outstanding at June 30, 2001, consists of certificates of participation, capital lease obligations (See Note 3E), pension obligation bonds, contracts/loans payable, revenue bonds, arbitrage rebate, accumulated unpaid employee leave benefits (See Note 1F) and landfill closure costs as follows (In Thousands):

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1993 Certificates of Participation issued March, 1993	3.00-5.75%	2013	$7,640	$5,735
1993 Certificates of Participation issued March, 1993	3.25-5.10%	2007	26,085	14,425
1993 Certificates of Participation issued May, 1993	2.50-5.625%	2012	203,400	125,095
1996 Certificates of Participation issued May, 1996	4.30-5.50%	2018	52,230	45,315
1996 Certificates of Participation issued December, 1996	4.00-6.00%	2019	37,690	35,525
1997 Certificates of Participation issued June, 1997	4.00-4.80%	2004	28,035	13,205
1997 Certificates of Participation issued July, 1997	4.00-5.00%	2025	80,675	75,620
1998 Certificates of Participation issued January, 1999	4.00-4.94%	2022	73,115	65,655
1999 Certificates of Participation issued September, 1999	3.60-4.75%	2009	15,010	13,770
2000 Certificates of Participation issued May, 2000	4.50-5.125%	2010	51,620	47,730
2000 Certificates of Participation issued May, 2000	4.50%	2020	19,000	5,975
2001 Certificates of Participation issued June, 2001	4.00%	2008	18,400	18,400
Total Certificates of Participation			612,900	466,450

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego Regional Building Authority				
Lease beginning October, 1991	4.60-6.363%	2019	$ 46,965	$ 39,035
Third Party Financing Leases:				
Motorola Corporation				
Lease beginning December, 1995	5.65%	2011	39,772	29,830
Others:				
Various beginning dates from				
August, 1997 to the present	4.24-8.00%	2002-2008	11,337	7,660
Total Capitalized Leases			98,074	76,525
Calif. Integrated Waste Mgmt Board				
Loans beginning December, 1995	5.83-5.87%	2016	1,260	1,050
Dept. of Transportation Loans				
Beginning March, 2001	5.63%	2017	3,584	3,440
Taxable Pension Obligation Bonds				
Series A	4.7-6.60%	2007	430,430	317,345
Revenue Bonds				
Redevelopment Agency Series 1995	4.75-6.75%	2020	5,100	4,770
Total Other Long-Term Obligations			440,374	326,605
Arbitrage Rebate				64
Accumulated Unpaid Employee				
Leave Benefits				68,807
Landfill Closure				101,000
Total General Long-Term Debt				$1,039,451

The certificates of participation (COP) of the SANCAL non-profit corporation listed above are secured by annual base rental lease payments payable by the County for use of the facilities constructed or equipment purchased from debt proceeds. There are also encumbrances on the facilities constructed with the proceeds of the SANCAL COP and the San Diego Regional Building Authority Bonds. The capital leases between the County and SANCAL have been eliminated for financial reporting purposes and the related assets and debt (e.g. certificates of participation of SANCAL) are reported as San Diego County's assets and debt, respectively.

Changes in General Long-Term Debt for the year ended June 30, 2001, are summarized as follows (In Thousands):

Obligation		Beginning Balance	Additions	Retirements	Ending Balance
Certificates of Participation	$	515,980	18,400	67,930	466,450
Capital Lease Obligations		81,834		5,309	76,525
Contracts/Loans Payable		1,120	3,584	214	4,490
Pension Obligation Bonds		347,305		29,960	317,345
Redevelopment Agency		4,870		100	4,770
Arbitrage Rebate		16	48		64
Accumulated Unpaid Employee Leave Benefits		65,479	3,328		68,807
Inactive Landfill Closure		101,000			101,000
Total	$	1,117,604	25,360	103,513	1,039,451

The following is a schedule of debt service requirements to maturity, including interest, for General Long-Term Debt outstanding at June 30, 2001 (In Thousands). Accumulated unpaid employee leave benefits and Landfill Closure are excluded since they are not estimable due to timing of payments.

Fiscal Years Ending June 30		Certificates Of Participation	Capital Leases	Other Long-Term Obligations	Pension Obligation Bonds	Redevel-opment Agency	Total
2002	$	57,023	9,504	469	53,753	420	121,169
2003		59,659	9,412	456	56,448	424	126,399
2004		57,920	8,909	456	59,270	422	126,977
2005		54,281	8,888	455	62,237	424	126,285
2006		54,246	8,772	454	65,349	426	129,247
2007-2011		192,837	38,618	2,230	94,686	2,150	330,521
2012-2016		87,428	17,437	2,097		2,178	109,140
2017-2021		59,793	14,002	181		2,215	76,191
2022-2026		30,602					30,602
Total	$	653,789	115,542	6,798	391,743	8,659	1,176,531

Prior Year Defeasance of Debt

In prior years, the County defeased certain lease revenue bonds/certificates of participation (COPs) by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old obligations. Accordingly, the trust account assets and the liability for the defeased obligations are not included in the County's financial statements. At June 30, 2001, $87.6 million of bonds/COPs outstanding are considered defeased.

Advance Refunding of Long-Term Debt

San Diego County Capital Asset Leasing Corporation (SANCAL)

On June 28, 2001 SANCAL issued $18.4 million in Certificates of Participation (COP) with a variable interest rate. This variable-rate debt does not have minimum and maximum rate limits. At the pricing date, the assumed variable interest rate was 4%. The net proceeds will be used to current refund $38.05 million of COP issued by SANCAL in 1991 for the Interim Justice Facility Project. The COP issued by the Corporation were secured by a long-term capital lease between the County and the Corporation. The net proceeds of $17.87 million (less underwriting fees of $184,000 and other issuance costs of $347,000) were used to purchase the par value of $18.4 million in US Government securities and to fund certain reserves for the COP. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the payment of the outstanding securities. As a result, the SANCAL 1991 COP is considered defeased. The liability for those COP issued by SANCAL and long-term capital lease between the County and the Corporation have been removed from the general long-term debt account group.

While there are inherent risks in issuing COP with variable rates, SANCAL will monitor the fluctuations in interest rates and will evaluate the economic advantage of refunding the issuance with a fixed rate or paying off the debt. Using the assumed variable rate of 4% at the time of pricing, SANCAL current refunded SANCAL's 1991 COP to achieve short-term budgetary savings to the County and to reduce the total debt service payments over the next 7 years by an estimated amount of $512,000 and to obtain an economic gain (difference between the present values on the old and new debt) of an estimated amount of $377,000.

Inactive Landfill Closure Costs

The County maintains 17 waste disposal sites that were closed prior to 1985. Consistent with State and Federal regulations pertaining to closed landfills, post- closure costs for these landfills, to include facilities maintenance and groundwater monitoring over a 30 year period, are estimated at $101 million in current year costs. This amount has been recorded in the general long-term debt account group. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The County has funded this liability from cash reserves realized in prior years.

G. PROPRIETARY FUND TYPES LONG-TERM DEBT

Proprietary fund types long-term debt consists of revenue bonds, loans payable, capital leases, contracts payable, and unpaid accumulated employee leave benefits. The revenue bonds are general obligations of the issuing district and as such, the district is empowered and obligated to levy ad valorem taxes upon all taxable property within the district without limit as to rate or amount for the purpose of paying the principal and interest. The bonds are also payable from restricted sewer service revenues of the issuing districts. A schedule of proprietary fund types long-term debt is as follows (In Thousands):

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding 6/30/2001
Revenue Bonds:				
Alpine Sanitation 1970A	6.70-7.00%	2001	$285	$ 25
Loans:				
Julian Sanitation	5.3%	2003	61	5
Capital Leases:				
Mail/Print/Records ISF:				
Koch Financial	4.73%	2002	166	54
Pitney Bowes	4.33-4.62%	2003	304	107
Fleet ISF:				
Koch Financial	4.88-5.63%	2002	5,803	117
Pitney Bowes	4.22-4.87%	2004	11,101	6,201
GECPAC	5.35-7.05%	2001	387	7
Total			18,107	6,516
Contract Payable Spring Valley				195
Long-term Claims Payable – Risk Financing ISF				84,210
Unpaid Accumulated Employee Leave Benefits				2,231
Total Proprietary Fund Types Long-Term Debt				$93,152

The following is a schedule of debt service requirements to maturity, including interest, for proprietary fund types revenue bonds, loans and capital leases outstanding at June 30, 2001. Accumulated unpaid employee leave benefits are excluded because they are not estimable due to timing of payments. Long term claims payable are also excluded since they are based on estimates which are uncertain as to the probable date of payment (In Thousands):

Year Ending June 30	Revenue Bonds	Loans	Capital Leases	Total
2002	$26	4	3,269	3,299
2003		5	2,785	2,790
2004			844	844
Total	$26	9	6,898	6,933

H. <u>SPECIAL ASSESSMENT DEBT</u>

The County Treasurer/Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated for repayment of any special assessment bonds and all special assessment debt is solely the obligation of various separate governmental agencies. The amount of special assessment debt outstanding for which the County is a fiduciary is $18.7 million at June 30, 2001.

I. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Individual Fund interfund balances at June 30, 2001 were (In Thousands):

		Due From Other Funds	Due To Other Funds
General Fund:	$	198,025	43,115
Special Revenue Funds:			
Road		3,068	1,603
Inactive Wastesites		657	273
Lighting District		34	21
Air Pollution		323	265
County Library		346	427
Asset Forfeiture Program		78	15
Inmate Welfare Program		228	361
HCD		406	4,807
Cable TV		23	13
Park Land Dedication		97	43
Children and Families Commission		1,358	82
County Service Districts		248	169
Flood Control District		286	67
Housing Authority		1,573	3,014
Realignment		6,328	45,042
Public Safety		272	29,204
Other Special Districts		56	585
Total Special Revenue Funds		15,381	85,991
Debt Service Funds:			
Pension Obligation Bonds		$26	-
Nonprofit Corporation		47	-
Redevelopment Agency		21	307
Total Debt Service Funds		94	307
Capital Projects Funds:			
Capital Outlay		15,827	13,217
Edgemoor Development		4	1
Nonprofit Corporation		40	9,313
Redevelopment Agency		36	20
Total Capital Projects Funds		15,907	22,551
Enterprise Funds:			
Airport		746	296
Liquid Waste		332	142
Transit		39	64
Sanitation Districts		855	239
Total Enterprise Funds		1,972	741

I. INTERFUND RECEIVABLE AND PAYABLE BALANCES (Continued)

	Due From Other Funds	Due To Other Funds
Internal Service Funds:		
Road & Communication Equipment	650	262
Purchasing	2,436	749
Risk Financing	382	1,283
Fleet Services	1,695	1,039
Mail, Print and Records	339	708
Facilities Management	7,783	6,268
Information Technology	10,436	48,990
Other Miscellaneous	51	375
Total Internal Service Funds	23,772	59,674
Trust and Agency Funds:		
Pension Trust	2,460	835
Investment Trust	61,965	5,962
Agency	2,421	102,821
Total Trust and Agency Funds	66,846	109,618
Total Due To – Due From Other Funds	$ 321,997	321,997

	Advances To Other Funds	Advances From Other Funds
General Fund:	$689	
Special Revenue Funds:		
County Service Districts		371
Flood Control District	157	
Total Special Revenue Funds	157	371
Debt Service Funds:		
Nonprofit Corporation	478	
Redevelopment Agency		287
Total Debt Service Funds	478	287
Capital Projects Funds:		
Redevelopment Agency		10,331
Total Capital Projects Funds		10,331
Enterprise Funds:		
Airport	9,637	
Sanitation Districts	135	314
Total Enterprise Funds	9,772	314
Internal Service Funds:		
Special District Loans	207	
Total Internal Service Funds	207	

Total Advances To - Advances From Other Funds	$11,303	11,303

J. RESIDUAL EQUITY TRANSFERS

Residual equity transfers consisted of transfers from the General Fund to the Fleet Internal Service Fund (ISF) in the amount of $7.1 million. Total residual equity transfers in do not equal total residual equity transfers out because the $7.1 million is recorded as a capital contribution in the Fleet ISF.

K. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The County maintains three enterprise funds which provide airport, liquid waste, and transit services. Segment information for the year ended June 30, 2001, for those funds and six sanitation districts for which the Board of Supervisors has oversight responsibility was as follows (In Thousands):

	Airport	Liquid Waste	Transit	Sanitation Districts	Totals
Operating Revenue	$5,424	3,772	11,843	12,209	33,248
Depreciation	745	16	586	1,582	2,929
Operating Income (Loss)	(1,032)	32	(765)	(1,040)	(2,805)
Tax Revenue				30	30
Grant Revenue	1,180				1,180
Other Nonoperating Revenue	327	216	197	3,864	4,604
Nonoperating Expenses	32			310	342
Nonoperating Income or (Loss)	1,475	216	197	3,584	5,472
Net Income or (Loss)	561	335	(1,003)	2,636	2,529
Capital Contributions			(435)	124	(311)
Plant, Property and Equipment: Additions	472	10	387	346	1,215
Deletions	33		668	290	991
Net Working Capital	15,062	1,610	11	58,754	75,437
Total Assets	36,573	1,906	7,450	102,124	148,053
Total Equity	35,914	1,514	4,323	101,295	143,046
Long-Term Liabilities	110	168		225	503

L. CONTRIBUTED CAPITAL

During fiscal year 2000/01 contributed capital neither increased nor decreased substantially in accordance with the Governmental Accounting Standards Board's Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", footnote 18. Instead, capital contribution changes are reflected in the Combining Statements of Revenues, Expenses and Changes in Retained Earnings.

Enterprise Funds

SOURCE	Airport	Liquid Waste	Transit	Sanitation Districts	Total
Accumulated Depreciation on Grant Funded Fixed Assets	$		(6,036)		(6,036)
Contributed Capital, July 1	15,922	695	10,784	23,091	50,492
Contributed Capital, June 30	$ 15,922	695	4,748	23,091	44,456

Internal Service Funds

Source	Road & Comm. Equip.	Purch.	Spec. Dist. Loans	Fleet	Mail/ Print Records	Facil. Mgmt.	Info. Tech.	Other Misc.	Total
Governments' Contributions Total Additions (Reductions)	$		3					(4)	(1)
Contributed Capital, July 1	9,541	1,189	904	34,599	583	186	10,453	4	57,459
Contributed Capital, June 30	$9,541	1,189	907	34,599	583	186	10,453		57,458

4. OTHER NOTE DISCLOSURES

A. COMMITMENTS AND CONTINGENCIES

(1) Litigation

In addition to the accrued liability for litigation and Workers Compensation claims described in Note 4B, the County has a potential liability of $19 million that could result if unfavorable final decisions were rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year. Estimates of potential liabilities described above include estimates of claims incurred but not reported at June 30, 2001.

(2) Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately $109.5 million in sick leave. These benefits are not payable to employees upon termination and are normally liquidated in future years as employees elect to use their benefits as prescribed by Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation has been recorded as current or long-term liabilities in the appropriate funds or General Long-Term Debt Account Group as described in Note 1F.

(3) Tax and Revenue Anticipation Notes

At June 30, 2001 $175 million of Tax and Revenue Anticipation Notes issued during fiscal year 2000/01 were still outstanding. Monies for complete redemption of these notes were fully segregated with an independent trustee at June 30, 2001, and subsequently used to redeem the notes on October 4, 2001. On July 3, 2001, the County issued $150 million of Tax and Revenue Anticipation notes to finance fiscal year 2001/02 General Fund cash flow requirements. The notes are scheduled to mature on June 28, 2002.

(4) Teeter Obligation Commercial Paper Notes

From November 1995 through June 2001, the County issued $82.7 million in taxable and $210.3 million in tax-exempt commercial paper notes (CP) to provide ongoing financing for tax apportionments to taxing jurisdictions within the County in the amount of delinquent secured property taxes due these districts. The notes are secured by delinquent secured property tax collections. No CP can be issued for a period longer than 270 days. At June 30, 2001, the outstanding balances of CP were $20.0 and $43.9 million for taxable and tax-exempt notes, respectively.

(5) Third Party Debt

Mortgage Revenue Bonds

Multi-family Housing Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income. Between December 1985 and June 2001, the County issued $49.7 million of Mortgage Revenue Bonds of which $41.1 million were still outstanding as of June 30, 2001.

Certificates of Participation

Beginning in April 1998, $112 million in Certificates of Participation have been issued to provide funding for construction of capital improvements and refunding of prior obligations for a hospital and medical center located within the County. In December 1998, the County entered into a lease agreement with the San Diego Natural History Museum to issue $15 million of COPs to finance certain museum improvements. In September 1999, the County entered into a lease agreement with the Burnham Institute to issue $51.5 million of COPs to finance the purchase of real property. In March 2000, the County entered into a lease agreement with the San Diego Museum of Art to issue $6 million of COPs to finance certain museum improvements. In April 2000, the County entered into a lease with the Salk Institute to issue $15 million of COPs to finance the acquisition, construction and equipping of certain research facilities. In May 2001, the County entered into a lease agreement with the University of San Diego to issue $36.9 million of COPs to finance certain capital improvements for the University. As of June 30, 2001, $233.4 million of such COPs are still outstanding.

Industrial Development Revenue Bonds

Industrial Development Revenue Bonds have been issued to provide financial assistance for the acquisition, construction, and installation of facilities for industrial, commercial, or business purposes to mutually benefit the citizens of the County. The County issued $3.5 million of Industrial Development Revenue Bonds in October 1987 and all of the outstanding bonds were redeemed on November 1, 2000. There are currently no county issued Industrial Development Revenue Bonds outstanding.

Reassessment District Improvement Bonds

Reassessment District Improvement Bonds were issued to provide for refunding an earlier issuance of Improvement Bonds for an assessment district. The district issued $28.8 million of Improvement Bonds in July 1991 to finance the acquisition of certain infrastructure improvements specially benefiting properties within an assessment district. In July 1997, the district issued $21.8 million of Reassessment Bonds to refund the original issuance, of which $18.8 million were still outstanding as of June 30, 2001.

Mortgage Revenue Bonds, Certificates of Participation, Industrial Development Revenue Bonds and Reassessment District Improvement Bonds as described above, together with interest thereon, are limited obligations of the County payable solely from bond proceeds, revenues and other amounts derived solely from home mortgage and health institutions, developer loans secured by first deeds of trust, irrevocable letters of credit, irrevocable surety bonds and tax assessments. In the opinion of County officials, these bonds and certificates are not payable from any revenues or assets of the County, and neither the full faith and credit nor the taxing authority of the County, the State or any political subdivision thereof is obligated to the payment of the principal or interest on the bonds. Accordingly, no liability for these bonds have been recorded in the General Long-Term Debt Account Group.

(6) Federal Programs

The County participates in a number of federal financial assistance programs. Although these programs have been audited through June 30, 2000, in accordance with the provisions of the Single Audit Act of 1996, the resolution of previously identified questioned costs has not occurred. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

(7) SDCERA

SDCERA is party to financial instruments with off-balance sheet risk to generate earnings and stabilize excess earnings from active management of fixed income securities and common stocks. Managed futures contracts include, but are not limited to, contracts for delayed delivery of securities, commodities, or currencies in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of counter-parties to meet the terms of their contract. The risks of loss from these off-balance sheet financial instruments include minimal credit risks, but include the possibility that future changes in market prices may make such financial instruments less valuable (market risk).

Not reflected in the pension trust fund financial statements are commitments to acquire real estate totaling $94 million.

The County has negotiated certain retirement enhancements as part of contract settlements with employee bargaining units that could become effective in March 2002. Because the effective date is contingent upon the resolution of several outstanding issues, the March date is tentative at this time. Implementation is contingent upon the conclusion of labor negotiations with two remaining employee organizations, the resolution of pending retirement litigation, decisions regarding the method of funding the additional benefits, and finally, approval by the County's Board of Supervisors. If implemented, the enhancements include the elimination of Tier II for both general and safety members, the introduction of a "3% at age 50" formula for safety members and a new optional Tier A for active general members. Preliminary actuarial estimates indicate that the Plan's accrued liability would increase by approximately $990 million, including additional reserve requirements for COLA and retiree health. The SDCERA has been working with its actuarial consultant to assess the financial impact of these enhancements, also taking into consideration the current investment market, to ensure that the Plan remains in sound financial condition in accordance with accepted actuarial principles.

(8) Deposits for Other Agencies

The Treasurer is a named paying agent for various bonds issued by other agencies, e.g., school districts, pursuant to the bond resolutions. The proceeds from these issues are deposited with financial institutions as guaranteed investment contracts in accordance with the provisions of the bond resolution and contractual relationships between the Treasurer and these financial institutions. The amounts deposited belong to the specific agency which issued the bonds and are not assets of the County reporting entity and are not held in the County's external investment pool. The County has no liability with respect to these issues.

B. RISK MANAGEMENT

The County operates a Risk Management Program, whereby it is self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery, general liability, and the first $1 million of workers' compensation. The County purchases insurance for property damage, certain casualty claims, public officials bond, employee dishonesty, faithful performance, volunteers, excess workers' compensation, airport comprehensive, and loss of money and securities based upon site locations. Earthquake insurance coverage decreased from $100 million to $75 million. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. During fiscal year 1994/95, the County established an Internal Service Fund (ISF) to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. An actuarial evaluation was used to determine the workers' compensation portion of total risk liability at June 30, 2001. For the public liability portion of total risk liability, the actuarial evaluation from June 30, 2000 was used with an estimate for changes since that date. The actuarial estimate was based partially on the experience of similar governmental entities and included the effects of specific incremental claim adjustment expenses, salvage and subrogation if such factors could be estimated. This estimate may be modified in future years to reflect the historical accumulation of the County's actual claims experience. At June 30, 2001, the amount of these liabilities, including an estimate for claims incurred but not reported, was estimated at $84.2 million, including $12.0 million in public liability and $72.2 million in workers' compensation. The workers' compensation liability increased by $25 million over last year's figure. The $25 million increase includes $16 million that was due to an increase in the minimum required level, and $9 million that was due to the County choosing the more conservative approach of recording the liability at an 80% confidence level. The County began allocating the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll beginning fiscal year 1996/97. Changes in the balances of claim liabilities for fiscal year 1999/00 and 2000/01 were as follows (In Thousands):

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
1999/00	$65,221	19,151	(24,849)	59,523
2000/01	59,523	51,593	(26,906)	84,210

Also, the County, in compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, has performed arbitrage rebate calculations to determine probable amounts due to the Federal government. An estimate of probable arbitrage rebate in the amount of $64,000 has been included in the General Long-Term Debt Account Group.

C. <u>JOINT VENTURE</u>

The County is a participant with 16 incorporated cities in a joint venture to operate an emergency services organization for the purpose of providing regional planning and mutual assistance in the event of an emergency or disaster in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council composed of one voting member from each represented jurisdiction. A contractual agreement requires that the cities provide one- half of the total required funding each year. The County, by agreement, also provides one-half of the required yearly funding. Any participant may terminate participation in the agreement by giving 120 days notice prior to the beginning of the next fiscal year. Total participant contributions for the 2000/01 fiscal year were $399,904. The organization had a cumulative surplus of $223,902 at June 30, 2001. Separate financial statements for the joint venture may be obtained from the County Chief Financial Officer/Auditor and Controller.

D. <u>JOINTLY GOVERNED ORGANIZATIONS</u>

The County Board of Supervisors jointly governs two service authorities, the Service Authority for Abandoned Vehicles and the Service Authority for Freeway Emergencies. These Authorities are governed by two seven-member boards, consisting of representatives from the city councils of the incorporated cities within the County and two members of the County Board of Supervisors. The purpose of the authorities is to provide for the removal of abandoned vehicles on streets and highways and to provide for freeway emergency call boxes on major freeways within the County, respectively. Funding for the authorities is derived from vehicle license fee surcharges, which are collected by the State and deposited into the County Treasury. The County provides minimal administrative staff support for these authorities.

The County Board of Supervisors and the San Diego City Council jointly govern the San Diego Workforce Partnership (the "Partnership"). The Partnership's Board of Directors consists of two members of the County Board of Supervisors, two members from the San Diego City Council and one member of a charitable organization. The purpose of the Partnership is to provide employment training to area residents. Funding for such training is provided by State and Federal grants.

The County also jointly governs the San Dieguito River Valley Authority, the Serra Cooperative Library System, Southern California Regional Training and Development Center, and the Van Horn Regional Treatment Facility. The governing boards of these entities consist of representatives from the County and/or other regional governments and other counties. The County does not appoint a voting majority to the above boards. Services provided by these entities include park land acquisition, coordination of library services, regional governmental training, and treatment of emotionally disturbed youth.

E. <u>SAN DIEGO COUNTY EMPLOYEES' RETIREMENT SYSTEM</u>

(1) Plan Description

The SDCERA administers a single-employer defined benefit pension plan which provides retirement, disability, and death benefits for plan members and beneficiaries pursuant to the County Retirement Law of 1937 enacted and amended by the State legislature. The plan is integrated with the Federal Social Security System. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the SDCERA Board of Retirement. SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. The financial report may be obtained by writing to the San Diego County Employees Retirement Association, 401 West A Street, Suite 1300, San Diego, California 92101 or by calling (619) 515-0130.

(2) Basis of Accounting and Fair Value of Investments (See Notes 1D and 1F, respectively).

(3) Funding Policy

State statutes require member contributions to be actuarially determined to provide a specific statutory level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the County to pay a portion of the employees' contribution. Member contribution rates (weighted average) expressed as a percentage of salary are 4.76%-12.48% for general members and 6.51%-14.40% for safety members. The County is also required by State statutes to contribute at an actuarially determined rate; the 2000/01 rates, expressed as a percentage of covered payroll, are – (3.82)% for general members and 2.96% for safety members.

(4) Annual Pension Cost

For the current fiscal year, the County's net annual pension cost was zero and was equal to the County's required and actual contribution. However, the Safety member component did reflect a small liability and the County elected to make contributions of approximately $2 million toward that liability. The General member liability was a negative number. The required contribution rates, as adopted by the SDCERA Board, were determined as part of the June 30, 1998 and June 30, 1999 actuarial valuations based upon entry-age actuarial cost method. The actuarial assumptions included (a) an 8.25% investment rate-of-return, (b) projected salary increases of 4.5% per year, and (c) cost-of-living increases for retirees of 3.0% (Tier I Safety and General members) and 2.0% (Tier II Safety and General members). The annual pension cost is the same as the annual pension contribution. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. Any unfunded actuarially accrued liability would be funded as a level percentage of projected payroll over a closed five-year period.

(5) Schedule of Funding Progress (In Millions):

Required Supplementary Information Unaudited

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll (b-a)/(c)
06/30/1998	$2,834.5	2,677.5	0	105.9%	$599.8	0%
06/30/1999	3,211.9	2,990.1	0	107.4%	642.8	0%
06/30/2000	3,568.7	3,248.8	0	109.8%	672.5	0%

The actuarial report for June 30, 2001 is not yet available.

(6) Three-Year Trend Information (In Thousands):

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/1998	$24,320	100%	0
06/30/1999	0	100%	0
06/30/2000	14,341	0%	0

The actuarial report for June 30, 2001 is not yet available. The Board of Retirement elected to offset the County's APC for the fiscal year ending June 30, 2000 from the considerable surplus within the Pension Trust Fund. Therefore, no County monies were expended for the APC.

(7) Retiree Health Benefits:

Retiree health benefits may be available to eligible retirees to the extent that the Board of Retirement on an annual basis approves the payments of such benefits. The Board of Supervisors and the Board of Retirement adopted a funding mechanism under 401(h) of the Internal Revenue Service code, which calls for a portion of the County's contributions to be deposited to a separate account each year. The amount of the contributions placed in this account are then withdrawn from the investment earnings which exceed the assumed rate of return of the portfolio, and placed in the retirement fund to ensure the funding of the pension benefits are made whole and complete. The health benefits fund began its funding with $19.9 million that can only be used to pay retirement health benefits.

Approximately 8,900 retirees or surviving spouses are eligible to receive these benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which approximated $10.8 million for fiscal year 2000/01. A reserve established by the SDCERA Board of Directors for the payment of postretirement health care benefits was approximately $181.5 million at June 30, 2001, a $45.8 million increase from the previous fiscal year.

(8) Equity and Bond Swaps and Futures Contracts:

SDCERA utilizes various financial instruments such as equity and bond interest rate swap agreements and stock and bond futures contracts in order to synthetically create exposure to the equity and bond markets. These financial instruments are intended to be equivalent to the asset they are designed to emulate and SDCERA management believes such investments offer significant advantages over the direct investment in securities including lower transaction fees and custody costs. The SDCERA governing board of directors has adopted a policy whereby specified amounts of cash and certain securities equal the exposures resulting from these agreements.

The use of swap agreements does expose the pension trust fund to the risk of dealing with financial counterparties and their ability to meet the terms of the contracts. Forward contracts for the purchase of certain commodities are reported at fair value in the financial statements. Obligations to purchase the commodities are not recognized until the commodities are delivered.

F. NEW SPECIAL REVENUE FUNDS

During the fiscal year, the County formed three new Special Revenue Funds. They are entitled Realignment, Children and Families Commission and Public Safety. All three funds were created by eliminating agency funds that formerly held receipts and periodically transferred them to and recognized revenue in the County general fund. The Realignment Fund accounts for revenues and expenditures related to providing health, mental health and public assistance programs to qualifying individuals. Financing is provided by a one-half cent statewide sales tax. The Children and Families Commission Fund accounts for revenues and expenditures related to ensuring that parents have high quality information and support so that their young children are physically, emotionally and developmentally ready to learn. Financing is primarily from a statewide tax on tobacco products. The County Board of Supervisors appoints three of the five commissioners. The Public Safety Fund accounts for revenues and expenditures related to providing public safety services such as sheriffs, fire protection, district attorneys, and corrections. Financing is provided by a one-half cent statewide sales and use tax. The County deemed it impractical to restate the special revenue fund section in the CAFR for the prior period. Instead, the cumulative effect of creating these three new funds is being reported as a restatement of beginning fund balance in the three individual funds for the year ended June 30, 2001. The beginning fund balances for the Realignment, Children and Families Commission, and Public Safety Funds were $25.0 million, $62.1 million and $27.5 million respectively.

G. PRIOR YEAR ADVANCE

Prior to the issuance of Revenue Bonds in 1995 by the San Diego County Redevelopment Agency, the County Airport Enterprise Fund funded the initial expenditures of the Agency's two airport projects. It has now been determined that the Redevelopment Agency is required to reimburse the Airport Enterprise Fund, which spent approximately $5.9 million on the projects. The Redevelopment Agency -- Capital Project Fund and the Airport Enterprise Fund have both recognized this increase in their respective Advances From and To Other Funds. They have also adjusted their beginning fund balance and retained earnings figures respectively for the fiscal year ending June 30, 2001. The Agency will pay interest on advances, but is not responsible for payment until funds are available for this purpose. Funds were not available this fiscal year and are not expected to be available next year. Therefore, no provision for accrued interest has been made in this report. The Agency's independent auditor has concurred in this treatment.

H. NEW GOVERNMENTAL ACCOUNTING STANDARDS

In December 1998, the Governmental Accounting Standards Board (GASB) issued Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". This statement establishes new standards to guide state and local governments' decisions about when to report the results of nonexchange transactions involving cash and other financial and capital resources. In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. The County has adopted the new standards for the current year.

In prior years, many nonexchange dollars were collected and maintained in agency funds until such time as they reimbursed expenditures incurred in the general fund and other funds of the County. Thus, revenues were not earned when received, but when expenditures were incurred. Under GASB Statement No. 33, the accounting method changed to require most nonexchange dollars to be recognized as revenues in the general fund or other appropriate fund when received. Time restrictions on revenue recognition required deferred revenues instead of actual revenues. Purpose restrictions did not affect revenue recognition, but did require a reservation of fund balance. The County analyzed hundreds of its trust and agency funds to determine the proper revenue recognition under the new standard. Many funds were found to hold assets for county purposes and for reporting purposes, were moved from the agency category to be recognized in other funds. The agency column now reports only assets held in an agent capacity for other governments, organizations and individuals. Any portion of agency fund assets belonging to other funds at year end are reported in those funds rather than in the agency fund.

The adoption of this statement has resulted in a restatement of several fund balances – beginning of year for the current year. The County determined that it was impractical to restate prior periods for an accounting change of this magnitude. Fund Balances - Beginning of Year for the 2000/01 fiscal year were restated (increased) in the General, Road and Flood Control District Funds by $142,442, $12,654 and $11,077 respectively (In Thousands). The details of the adjustment are reflected below:

Restated		General	Road	Flood Control
Reserved for Other Purposes	$	118,028	12,696	11,111
Designated for Subsequent Years' Expenditures		20,783		
Undesignated		3,631	(42)	(34)
Total	$	142,442	12,654	11,077

Revenue and fund balance increases were recognized in the current year as a result of implementing the new standards as follows (In Thousands):

Reserved for Other Purposes	$	34,145	9,604	1,894
Designated for Subsequent Years' Expenditures		1,668		
Undesignated		522		
Total	$	36,335	9,604	1,894

The fund balances in the General and Special Revenue Funds, the net assets of the Investment Trust Fund and the amounts due to other governments in the Agency Funds as of June 30, 2000 were restated as beginning balances in the fiscal year 2000/01 statements as follows:

		General	Special Revenue	Trust & Agency
Balances, June 30, 2000 as Previously Reported	$	352,925	207,755	2,003,040
Adjustment to Record Revenues of New Special Revenue Funds			96,336	(96,336)
Adjustment to Recognize Revenues in Accordance with GASB 33		141,956	23,731	(135,687)
Adjustment for Grants Now Recorded as Deferred Revenue				(33,705)
Revenue and Expenditure Accruals Related to GASB 33		486	18,297	
Adjustments Due to Changes in Fund Classifications				(6,634)
Balances, June 30, 2000 as Restated	$	495,367	346,119	1,730,678

In the Investment Trust Fund, the Net Assets Held In Trust for Pool Participants – Beginning of Year for the fiscal year 2000/01 was restated (decreased) by $98.3 million. This was a result of the County's thorough review of all trust and agency funds. The adjustment consisted primarily of moving various Investment Trust Fund Equity in

Pooled Cash and Investment balances in the amount of $144.8 million to the Agency, General and Special Revenue Funds. In addition, approximately $47.6 million of Agency Fund Equity in Pooled Cash and Investments were moved to the Investment Trust Fund. Other net assets of $1.1 million were moved from Investment Trust Funds.

In the Agency Fund, the beginning Equity in Pooled Cash and Investments for the fiscal year 2000/01 was restated (decreased) by $259.1 million. Again, this resulted from the trust and agency fund review. The adjustment consisted of moving various Agency Fund Equity in Pooled Cash and Investments in the amount of $349.5 million to the General, Special Revenue and Investment Trust Funds. The Agency Fund then received approximately $90.4 million of Equity in Pooled Cash and Investments from various Investment Trust Funds. A portion of the assets moved to the General Fund consisted of $32.6 million that was being held there for grants subject to time restrictions and thus was reported as deferred revenue.

In April 2000, the GASB issued Statement No. 36, "Recipient Reporting for Shared Nonexchange Revenues". This statement amended a paragraph within Statement No. 33 relating to shared derived tax revenues. The County has adopted the new standard for the current year, but no reporting changes were necessary.

In June 1999, the GASB issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". This is a landmark statement that requires government agencies nationwide to report both on a fund basis and also on a government-wide full accrual basis, including infrastructure assets. A comprehensive management discussion and analysis section is also being added. In June 2001, the GASB issued Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus". This statement will help governments to better implement GASB Statement No. 34 as it clarifies and modifies certain provisions of that statement. It also provides for a more consistent application to meet changing requirements. In June 2001, the GASB also issued Statement No. 38, "Certain Financial Statement Note Disclosures". This statement will provide users with new information while eliminating some disclosures no longer needed. Some requirements addressed are revenue recognition, debt service, receivables, payables, interfund transfers and short term debt. The County has not adopted the new standards in Statement Nos. 34, 37 and 38 for the current year, but must adopt the new standards for the fiscal year beginning July 1, 2001. The County has not determined the effect on the financial statements in the year of adoption.

I. SUBSEQUENT EVENT DISCLOSURE

In September 2001, the San Diego Regional Building Authority issued Certificates of Participation (COP), which defeased the 1991 COP. Total debt service requirements were reduced by $9.8 million, resulting in an economic gain of approximately $5 million. The County's interest in this debt is 73.29%.

In November 2001, SANCAL completed the redemption of $5,975,000 of COP issued in May 2000 to finance the San Pasqual Academy. There are no outstanding COP from the original issuance of $19.0 million.